



RP-2005-0020
EB-2005-0350

IN THE MATTER OF the *Ontario Energy Board Act*,
1998, S.O. 1998, c.15 (Schedule B);

AND IN THE MATTER OF an Application by Chatham-
Kent Hydro Inc. for an order or orders approving or fixing
just and reasonable distribution rates and other charges,
effective May 1, 2006.

BEFORE: Paul Vlahos
Presiding Member

Bob Betts
Member

DECISION AND ORDER

Chatham-Kent Hydro Inc. (“Chatham-Kent Hydro” or the “Applicant”) is a licensed distributor providing electrical service to consumers within its defined service area. Chatham-Kent Hydro filed an Application (the “Application”) with the Ontario Energy Board (the “Board”) for an order or orders approving or fixing just and reasonable rates for the distribution of electricity and other matters, to be effective May 1, 2006.

Chatham-Kent Hydro is one of over 90 electricity distributors in Ontario that are regulated by the Board. To streamline the process for the approval of distribution rates and charges for these distributors, the Board developed and issued the 2006 Electricity Distribution Rate Handbook (the “Handbook”) and complementary spreadsheet-based models. These materials were developed after extensive public consultation with distributors, customer groups, public and environmental interest groups, and other interested parties. The Handbook contains requirements and guidelines for filing an

application. The models determine the amounts to be included for the payments in lieu of taxes (“PILs”) and calculate rates based on historical financial and other information entered by the distributor.

Also included in this process was a methodology and model for the final recovery of regulatory assets flowing from the Board’s decision dated December 9, 2004 on the Review and Recovery of Regulatory Assets – Phase 2 for Toronto Hydro, London Hydro, Enersource Hydro Mississauga and Hydro One Networks Inc. (“Hydro One”). In Chapter 10 of the decision, the Board outlined a Phase 2 process for the remaining distributors. By letter of July 12, 2005, the Board provided guidance and a spreadsheet-based model to the distributors for the inclusion of this recovery as part of their 2006 distribution rate applications.

As a distributor that is embedded in Hydro One Network’s low voltage system, the Applicant has included the recovery of certain Regulatory Assets that have been allocated by Hydro One Networks. The amount claimed by the Applicant was provided by Hydro One Networks as a reasonable approximation of the actual amount that Hydro One Networks will assess the Applicant. To the degree that the amount differs from the actual amount approved for Hydro One Networks in another proceeding (RP-2005-0020/EB-2005-0378), this difference will be reconciled at the end of the Regulatory Asset recovery period, as set out in the Phase II regulatory assets decision issued on December 9, 2004 (RP-2004-0064/RP-2004-0069/RP-2004-0100/RP-2004-0117/RP-2004-0118).

In its preliminary review of the 2006 rate applications received from the distributors, the Board identified several issues that appeared to be common to many or all of the distributors. As a result, the Board held a hearing (EB-2005-0529) to consider these issues (the “Generic Issues Proceeding”) and released its decision (the “Generic Decision”) on March 21, 2006. The rulings flowing from that Generic Decision apply to this Application, except to the extent noted in this Decision. The Board notes that pursuant to ss. 21 (6.1) of the *Ontario Energy Board Act, 1998*, and to the extent that it is pertinent to this Application, the evidentiary record of the Generic Issues Proceeding is part of the evidentiary record upon which the Board is basing this Decision.

In December 2001, the Board authorized the establishment of deferral accounts by the distributors related to the payments that the distributors make to the Ministry of Finance in lieu of taxes. The Board is required, under its enabling legislation, to make an order

with respect to non-commodity deferral accounts once every twelve months. The Board has considered the information available with respect to these accounts and orders that the amounts recorded in the accounts will not be reflected in rates as part of the Rate Order that will result from this Decision. The Board will continue to monitor the accounts with a view to clearing them when appropriate.

Public notice of the rate Application made by Chatham-Kent Hydro was given through newspaper publication in its service area. The evidence filed was made available to the public. Interested parties intervened in the proceeding. The evidence in the Application was tested through written interrogatories from Board staff and intervenors, and intervenors and Chatham-Kent Hydro had the opportunity to file written argument. While the Board has considered the entire record in this proceeding, it has made reference in this Decision only to such evidence and argument as is necessary to provide context to its findings.

Chatham-Kent Hydro has requested an amount of \$16,166,091 as revenue to be recovered through distribution rates and charges. Included in this amount is a debit of \$729,171 for the recovery of regulatory assets. Except where noted in this Decision, the Board finds that Chatham-Kent Hydro has filed its Application in accordance with the Handbook and the guidelines for the recovery of regulatory assets. Notwithstanding Chatham Kent's general compliance with the Handbook and associated models, in considering this Application the Board reviewed the following matters in detail:

- Low Voltage Rates;
- Rate Harmonization;
- Conservation and Demand Management ("CDM") funding;
- Unmetered Scattered Load; and
- Consequences of the Generic Decision (EB-2005-0529).

Low Voltage Rates

Chatham-Kent Hydro included in its Application recovery of ongoing Low Voltage ("LV") charges that Hydro One Networks will be levying on Chatham-Kent Hydro for Low Voltage wheeling distribution services provided to Chatham-Kent Hydro.

The Board notes that this estimate reflects Hydro One Networks' current approved LV rate of \$0.56/kW. The Board further notes that Hydro One Networks applied for an LV rate of \$0.63/kW in its 2006 rate application RP-2005-0020/EB-2005-0378, and the Board has approved this rate.

The Board is of the view that the LV adjustment that Chatham-Kent Hydro has included in its Application is insufficient to recover its expected LV charges in 2006, as this amount does not reflect the updated Hydro One Networks rate. Although the Generic Decision provides that embedded distributors are to track differences between LV costs charged by the host distributor(s) and corresponding revenues recovered from ratepayers, the Board seeks to minimize systemic sources of variance. The Board is of the view that Chatham-Kent Hydro's rates should reflect the LV rates authorized by the Board for the host distributor. Accordingly, the Board has revised the amount for LV charge recovery in Chatham-Kent Hydro's revenue requirement.

Rate Harmonization

Chatham-Kent Hydro consists of 11 service areas that amalgamated in December 1997. Chatham-Kent Hydro has different rates for the residential, general service time-of-use, general service large user and sentinel lighting classes among its non-contiguous service areas. Chatham-Kent Hydro proposed to harmonize the rates over the following periods of time:

- Residential: over 3 years
- General Service TOU (greater than 3,000 KW and less than 5,000 KW): in year 2 only
- General Service Large User: over 1 year
- Sentinel lighting: over 1 year

Chatham-Kent Hydro has noted the following benefits to the harmonization plan:

- The customers throughout Chatham-Kent's service area will pay the same price for similar services;
- Opportunities for economic development in different original service areas will not be affected by differing rates; and
- Harmonized rates will introduce rate classes in certain service areas that currently do not have such rate classes.

The Vulnerable Energy Consumers Coalition (“VECC”) was the only intervenor with comments specific to this issue and submitted that the proposed plan was reasonable.

The Board notes that the harmonization will remove distinctions between customers based on historic service area and that it will not create undue customer rate impacts. The Board finds that the rate harmonization proposed by Chatham-Kent Hydro is reasonable and accepts the Applicant’s implementation plan.

CDM Funding

Chatham-Kent Hydro applied for approval to recover \$200,000 in distribution rates to be invested in incremental CDM activities.

VECC was the only intervenor to submit comments on this issue. VECC submitted that “full program details and TRC calculation for each should be provided to the Board as a prerequisite for the requested dollars being included in rates”. VECC also submitted that “details regarding the individual programs and full support for claims regarding which customer classes will benefit must be provided before such allocations are approved by the Board.”

The Board notes that in the decision on the Generic CDM Issues RP-2005-0020 / EB-2005-0523, the Board adopted the TRC test as the prudence test for CDM spending. Without the results of a TRC cost effectiveness test on the programs proposed by Chatham-Kent Hydro, the Board cannot determine if the CDM expenditures are prudent. As a result, the Board will not approve the \$200,000 for incremental CDM spending.

Unmetered Scattered Load

Chatham-Kent Hydro proposed rates for unmetered scattered load that differ by end use, and are applied on a per-site basis based on the rated loads multiplied by the monthly hours of use. The rates have been differentiated into the following classifications:

- cable television;
- phone booths;
- traffic lights;
- railway crossings; and
- bus shelters.

The Board accepts that these different end use devices will have different capacities and consumption levels. However, based on the evidence provided by Chatham-Kent, different unit rates would be charged on these loads.

On the evidence provided, the Board is not persuaded that different unit rates are justified. Therefore, the Board accepts the proposed rates only on a short-term, interim basis. The Board directs Chatham-Kent Hydro to calculate one rate to be applied to all unmetered scattered loads, as well as a plan for implementing the new rate. The new rate must be revenue neutral compared to the interim rates. Chatham-Kent must file the new rate with complete supporting documentation demonstrating revenue neutrality with the Board no later than 60 days from the date of this Decision.

Consequences of the Generic Decision on this Application

The Generic Decision contains findings relevant to funding for smart meters for electricity distributors. The Applicant did file a specific smart meter plan in the revenue requirement. In this situation, the Generic Decision provides that an amount determined as \$3.50 per meter per month installed during the rate year be reflected in the Applicant's revenue requirement, instead of the smart meter-related costs proposed by the Applicant. As there is a variance account, and for simplicity, the Board has not made any distinction for purposes of setting rates between the meter costs for residential and non-residential customers. Consequently, the amounts that the Applicant has proposed in the 2006 rate Application have been removed and replaced with the amount determined in accordance with the Generic Decision. Furthermore, the Board finds in this Decision that this smart meter revenue will be allocated to all metered customers and recovered through the monthly service charge. Pursuant to the Generic Decision, a variance account will be established, the details of which will be communicated in due course.

With respect to standby rates, the Generic Decision provided that existing and proposed standby rates should be declared interim upon the effective date of the rates approved in this decision. Given that Chatham-Kent Hydro proposed new rates, those rates are declared interim at the proposed level as of May 1, 2006.

Resulting Revenue Requirement

As a result of the Board's determinations on these issues, the Board has adjusted the revenue requirement to be recovered through distribution rates and charges to \$15,529,520, including a debit amount of \$729,171 for the recovery of Regulatory Assets.

In its letter of December 20, 2004 to electricity distributors, the Board indicated that it would consider the disposition of the 2005 OEB dues recorded in Account 1508 in this proceeding. However, given that the final 2005 OEB dues are not available because of the difference in fiscal years for the Board and the distributors, and given that the model used to develop the Application does not incorporate this provision, the Board will review and dispose of the 2005 OEB dues at a later time.

Cost Awards

This Application is one of a number of applications before the Board dealing with 2006 rates chargeable by distributors. Intervenors may be parties to multiple applications and, if eligible, their costs associated with a specific distributor may not be separable. Therefore, for these applications, the matter of intervenor cost awards will be addressed by the Board at a later date, upon the conclusion of the current rate applications. If an intervenor that is eligible to recover its costs is able to uniquely identify its costs associated with this Application, it must file its cost claim within 10 days from the receipt of this Decision.

THE BOARD ORDERS THAT:

1. As a result of the large number of rate zones for the Applicant, a Tariff of Rates and Charges is not included with this Decision. Chatham-Kent Hydro Inc. is directed to incorporate the results of this decision into a proposed Tariff of Rates and Charges and submit that Tariff to the Board for review and approval by April 19, 2006.

DATED at Toronto, April 12, 2006.

ONTARIO ENERGY BOARD

A handwritten signature in black ink, appearing to read "John Zych". The signature is fluid and cursive, with the first name "John" written in a larger, more prominent script than the last name "Zych".

John Zych
Board Secretary